

FEDERAL RESERVE SYSTEM

Glacier Bancorp, Inc.
Kalispell, Montana

Order Approving the Acquisition of a Bank Holding Company

Glacier Bancorp, Inc. (“Glacier”), a bank holding company within the meaning of the Bank Holding Company Act (“BHC Act”), has requested the Board’s approval under section 3 of the BHC Act¹ to acquire Citizens Development Company (“Citizens”), Billings, and its subsidiary banks: First Citizens Bank of Billings, Billings; First National Bank of Lewistown, Lewistown; Western Bank of Chinook National Association, Chinook; First Citizens Bank, National Association, Columbia Falls; and Citizens State Bank, Hamilton, all of Montana.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published in the Federal Register (71 Federal Register 29,967 (2006)). The time for filing comments has expired, and the Board has considered the application and all comments received in light of the factors set forth in section 3 of the BHC Act.

Glacier, with total consolidated assets of \$4 billion, is the second largest depository organization in Montana, controlling deposits of \$1.5 billion, which represent 11.8 percent of total deposits of insured depository institutions in Montana (“state deposits”).² Glacier operates ten subsidiary insured depository institutions in Idaho, Utah, Washington, Wyoming, and Montana.

¹ 12 U.S.C. § 1842.

² Asset data are as of June 30, 2006, and statewide deposit and ranking data are as of June 30, 2005, and are adjusted for subsequent acquisitions. In this

Citizens, a small bank holding company with banking assets of approximately \$411 million, operates five subsidiary insured depository institutions in Montana. Citizens is the eighth largest depository organization in the state, controlling deposits of approximately \$349.8 million.

On consummation of this proposal, and after accounting for the proposed divestiture, Glacier would remain the second largest depository organization in Montana, controlling deposits of approximately \$1.8 billion, which represent approximately 14.6 percent of state deposits.

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or would be in furtherance of an attempt to monopolize the business of banking in any relevant banking market. The BHC Act also prohibits the Board from approving a proposal that would substantially lessen competition in any relevant banking market, unless the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.³ The Board has carefully considered the competitive effects of the proposal in light of all the facts of record.

A. Geographic Banking Market

Glacier and Citizens compete directly in the Kalispell, Missoula, Lewistown, and Billings banking markets in Montana.⁴ Glacier contends that the Lewistown banking market, as delineated by the Federal Reserve Bank of

context, insured depository institutions include commercial banks, savings banks, and savings associations.

³ 12 U.S.C. § 1842(c)(1).

⁴ These banking markets are described in Appendix A.

Minneapolis (“Reserve Bank”),⁵ does not reflect the true nature of banking competition in Lewistown and that the relevant geographic market for analysis should be expanded to include the Great Falls banking market.⁶ Glacier bases its contention on the commercial interaction and ease of access between the cities of Lewistown and Great Falls.⁷

In defining the relevant geographic market, the Board and the courts have consistently found that the relevant geographic market for analyzing the competitive effects of a proposal must reflect commercial and banking realities and should consist of the local area where customers can practicably turn for alternatives.⁸ In reviewing Glacier’s contention, the Board has considered a number of factors to identify the economically integrated area that represents the appropriate local geographic banking market encompassing Lewistown for

⁵ The Lewistown banking market is defined as Fergus and Petroleum Counties in Montana. Lewistown is in Fergus County.

⁶ The Great Falls banking market includes Teton, Cascade, Judith Basin, Glacier, Toole, and Pondera Counties and the Fort Benton and Geraldine Divisions of Chouteau County, all in Montana.

⁷ Glacier argues that a substantial number of Lewistown residents travel to Great Falls to obtain consumer goods and services from large national retailers that are not available in Lewistown. Glacier also notes that Great Falls and Lewistown are included in the same telephone directory and that Lewistown is served by Great Falls television and radio stations. In addition, Glacier notes that Great Falls has a large airport, colleges, and medical facilities.

⁸ See United States v. Phillipsburg National Bank, 399 U.S. 350 (1970); United States v. Philadelphia National Bank, 374 U.S. 321, 357 (1970); Brown Shoe Co. v. United States, 370 U.S. 294, 336-337 (1962). See also First York Ban Corp, 88 Federal Reserve Bulletin 251, 251 (2002); First Union Corporation, 84 Federal Reserve Bulletin 489 (1998); First Union Corporation, 83 Federal Reserve Bulletin 1012, 1013-14 (1997); Chemical Banking Corporation, 82 Federal Reserve Bulletin 239, 241 (1996); and Wyoming Bancorporation, 68 Federal Reserve Bulletin 313, 314 (1982).

purposes of analyzing the proposal's competitive effects.⁹ Both Glacier and the Reserve Bank conducted surveys to ascertain whether the residents of Lewistown and Great Falls, the primary population centers in the two markets, would turn to the other for alternative banking services.¹⁰ The Board reviewed those surveys in light of all the evidence in the record, including information provided by local financial institutions, the State of Montana, and other publicly available information.

The Board reviewed the geographic proximity of Lewistown and Great Falls and the commuting data between those cities. The data, as Glacier acknowledged in its application, indicate that there is little commuting between Great Falls and Lewistown, cities that are approximately 100 miles apart. According to data collected by the U.S. Census Bureau in 2000, there is virtually no worker commuting between Great Falls and Lewistown. Moreover, the survey conducted by Glacier indicated that there is limited travel for shopping and other services between the two areas. According to its survey, although 37 percent of Lewistown residents surveyed travel to Great Falls at least once a month, only 9 percent travel to Great Falls twice a month or more. Additionally, the survey conducted by the Reserve Bank supports the conclusion that there is little travel between Lewistown and Great Falls.

⁹ In delineating the relevant geographic market in which to assess the competitive effects of a bank merger or acquisition, the Board reviews population density; worker commuting patterns; the usage and availability of banking products; advertising patterns of financial institutions; the presence of shopping, employment, and other necessities; and other indicia of economic integration and transmission of competitive forces among banks. See, e.g., First Security Corporation, 86 Federal Reserve Bulletin 122 (2000); Pennbancorp, 69 Federal Reserve Bulletin 548 (1983).

¹⁰ An independent market research company conducted Glacier's survey.

Relevant banking data also support the Reserve Bank's definition of the Lewistown banking market as the relevant geographic market. Of the Lewistown residents surveyed by Glacier, 95 percent had their primary banking relationship with a financial institution in Lewistown, and only 4 percent used any banking services in Great Falls. The survey also indicated that 65 percent of respondents believed it would be difficult or very difficult to bank in Great Falls and 79 percent indicated that they would not take advantage of better rates on banking products in Great Falls. In addition, lending information that financial institutions are required to report under the Community Reinvestment Act ("CRA")¹¹ and the Home Mortgage Disclosure Act¹² indicates that lending in Fergus County, where Lewistown is located, by financial institutions located outside the county was de minimis in comparison to lending by institutions with offices in the county.¹³ Based on the foregoing and a careful review of all the facts of record, the Board reaffirms that the relevant geographic market within which to evaluate the competitive effects of this proposal is the Lewistown banking market as currently defined by the Reserve Bank.¹⁴

¹¹ 12 U.S.C. § 2901 et seq.

¹² 12 U.S.C. § 2801 et seq.

¹³ A geographic market must represent a fair intermediate delineation, which avoids the indefensible extremes of drawing the market either too expansively or too narrowly based on the banking preferences of a few customers. Philadelphia National Bank, 374 U.S. at 320-21.

¹⁴ Glacier cites a previous determination by the Board to expand the Great Falls banking market by including several counties north of Great Falls to support its contention that Lewistown should be part of the Great Falls banking market. Norwest Corporation, 80 Federal Reserve Bulletin 455 (1994). The Board has reviewed the record of that application and notes that greater economic integration existed between the communities north of Great Falls and Great Falls than, on this application record, exists between Lewistown and Great Falls.

B. Competitive Effects in Banking Markets

The Board has reviewed carefully the competitive effects of the proposal in the Lewistown banking market and in the other three banking markets where Glacier and Citizens compete directly in light of all the facts of record. In particular, the Board has considered the number of competitors that would remain in the banking markets, the relative shares of total deposits in depository institutions in the markets (“market deposits”) controlled by Glacier and Citizens,¹⁵ the concentration level of market deposits and the increase in that level as measured by the Herfindahl-Hirschman Index (“HHI”) under the Department of Justice Merger Guidelines (“DOJ Guidelines”),¹⁶ other characteristics of the markets, and commitments made by Glacier to divest its operations in the Lewistown banking market.

Banking Market With Divestiture. In the Lewistown banking market, Glacier is the fourth largest depository organization, controlling deposits of \$24 million, which represent 12.1 percent of market deposits. Citizens’ subsidiary, First National Bank of Lewistown, is the largest depository institution

¹⁵ Deposit and market data are as of June 30, 2005. No thrift institutions operate in the Billings, Kalispell, Lewistown, or Missoula banking markets.

¹⁶ Under the DOJ Guidelines, a market is considered unconcentrated if the post-merger HHI is under 1000, moderately concentrated if the post-merger HHI is between 1000 and 1800, and highly concentrated if the post-merger HHI exceeds 1800. The Department of Justice (“DOJ”) has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. The DOJ has stated that the higher-than-normal HHI thresholds for screening bank mergers and acquisitions for anticompetitive effects implicitly recognize the competitive effects of limited-purpose and other nondepository financial entities.

in the market, controlling deposits of \$72.1 million, which represent 36.3 percent of market deposits. On consummation and without the proposed divestiture, the HHI in this market would increase 879 points, from 2564 to 3443, and the pro forma market share of the combined entity would be 48.4 percent.

To reduce the potential adverse effects on competition in the Lewistown banking market, Glacier has committed to divest the Lewistown branch of its subsidiary, Western Security Bank, to a purchaser that the Board determines to be competitively suitable.¹⁷ On consummation of the proposal and after accounting for the proposed divestiture, Glacier would become the largest depository institution in the market, controlling deposits of approximately \$72.1 million, which represent 36.3 percent of market deposits. The HHI would not increase more than 167 points to 2731, and such an increase would be within the DOJ Guidelines.

In reviewing the competitive effects of the proposal in the Lewistown banking market, the Board also has considered carefully whether other factors mitigate the competitive effects of the proposal.¹⁸ On consummation of the

¹⁷ Glacier has committed that before consummation of the proposed acquisition, it will execute an agreement for the proposed divestiture in the Lewistown banking market, consistent with this order. Glacier also has committed to complete the divestiture within 180 days after consummation of the proposed merger. In addition, Glacier has committed that if it is unsuccessful in completing the proposed divestiture within such time period, it will transfer the unsold branch to an independent trustee who will be instructed to sell the branch to an alternate purchaser or purchasers in accordance with the terms of this order and without regard to price. Both the trustee and any alternate purchaser must be deemed acceptable by the Board. See BankAmerica Corporation, 78 Federal Reserve Bulletin 338 (1992); United New Mexico Financial Corporation, 77 Federal Reserve Bulletin 484 (1991).

¹⁸ The number and strength of factors necessary to mitigate the competitive effects of a proposal depend on the size of the increase in, and resulting level

proposal and the proposed divestiture to a competitively suitable banking organization, at least four insured depository institutions would continue to operate in the market, and two institutions other than Glacier would each hold more than 10 percent of market deposits. Furthermore, the proposed divestiture would reduce the resulting increase in Glacier's market share by a substantial amount, approximately one-third, and would produce a new entrant or significantly enhance the market share of a small in-market competitor.

Banking Markets Without Divestitures. Consummation of the proposal without divestitures would be consistent with Board precedent and within the thresholds in the DOJ Guidelines in the Billings, Kalispell, and Missoula banking markets where Glacier's and Citizens' subsidiary banks also compete directly.¹⁹ On consummation, all three banking markets would remain moderately concentrated, as measured by the HHI, and numerous competitors would remain in each banking market.

C. Views of Other Agencies/Conclusion on Competitive Considerations

The DOJ also has conducted a detailed review of the potential competitive effects of the proposal and has advised the Board that, in light of the proposed divestiture, consummation of the proposal would not likely have a significantly adverse effect on competition in any relevant banking market. In addition, the appropriate banking agencies have been afforded an opportunity to comment and have not objected to the proposal.

of, concentration in the market. See NationsBank Corporation, 84 Federal Reserve Bulletin 129 (1998).

¹⁹ The effects of the proposal on the concentration of banking resources in these markets are described in Appendix B.

Based on all the facts of record, the Board concludes that consummation of the proposal would not have a significantly adverse effect on competition or on the concentration of resources in the four banking markets where Glacier and Citizens compete directly or in any other relevant banking market. Accordingly, the Board has determined that competitive considerations are consistent with approval.

Financial, Managerial, and Supervisory Considerations

Section 3 of the BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and depository institutions involved in the proposal and certain other supervisory factors. The Board has considered these factors in light of all the facts of record, including confidential reports of examination, other supervisory information from the primary supervisors of the organizations involved in the proposal, publicly reported and other financial information, and information provided by the applicant.

In evaluating financial factors in expansion proposals by banking organizations, the Board reviews the financial condition of the organizations involved on both a parent-only and consolidated basis, as well as the financial condition of the subsidiary banks and significant nonbanking operations. In this evaluation, the Board considers a variety of information, including capital adequacy, asset quality, and earnings performance. In assessing financial factors, the Board consistently has considered capital adequacy to be especially important. The Board expects banking organizations contemplating expansion to maintain strong capital levels substantially in excess of the minimum levels specified by the Board's Capital Adequacy Guidelines. The Board also evaluates the financial

condition of the combined organization at consummation, including its capital position, asset quality, and earnings prospects, and the impact of the proposed funding of the transaction.

The Board has considered carefully the financial factors of the proposal with respect to Glacier, Citizens, and their subsidiary banks. In light of all the facts of record, the Board has concluded that the capital levels of the relevant organizations are consistent with the Board's Capital Adequacy Guidelines. Based on its review of the record, the Board also believes that Glacier has sufficient financial resources to effect the proposal. The proposed transaction is structured as a share exchange and partial cash purchase that will be funded with the proceeds from issuances of common stock and trust-preferred securities.

The Board also has considered the managerial resources of Glacier, Citizens, and their subsidiary banks. The Board has reviewed the examination records of these institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered its supervisory experiences and those of the other relevant banking supervisory agencies with the organizations and their records of compliance with applicable banking law, including anti-money laundering laws. The Board also has considered Glacier's plans for implementing the proposal, including the proposed management after consummation.

Based on all the facts of record, the Board has concluded that considerations relating to the financial and managerial resources and future prospects of the organizations involved in the proposal are consistent with approval, as are the other supervisory factors under the BHC Act.

Convenience and Needs Considerations

In acting on a proposal under section 3 of the BHC Act, the Board also must consider the effects of the proposal on the convenience and needs of the communities to be served and take into account the records of the relevant insured depository institutions under the CRA. All of Glacier's banks received "outstanding" or "satisfactory" ratings at their most recent CRA performance evaluations by the banks' primary federal supervisors. Citizens' banks all received "satisfactory" ratings at their most recent CRA performance evaluations. After consummation of the proposal, Glacier plans to implement its CRA policies at Citizens' banks. Glacier has represented that the proposal will expand lending capacity and the products and services available to consumers where the banks operate, while maintaining local decision making and a community focus. Based on all the facts of record, the Board concludes that considerations relating to the convenience and needs factor and the CRA performance records of the relevant depository institutions are consistent with approval.

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the application should be, and hereby is, approved. In reaching its conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act. The Board's approval is specifically conditioned on compliance by Glacier with the conditions imposed in this order and the commitments made to the Board in connection with the application, including the divestiture commitment discussed above. For purposes of this action, the conditions and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decision herein and, as such, may be enforced in proceedings under applicable law.

The proposed transaction may not be consummated before the fifteenth calendar day after the effective date of this order, or later than three months after the effective date of this order, unless such period is extended for good cause by the Board or the Federal Reserve Bank of Minneapolis, acting pursuant to delegated authority.

By order of the Board of Governors,²⁰ effective September 14, 2006.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

²⁰ Voting for this action: Chairman Bernanke, Vice Chairman Kohn, and Governors Bies, Warsh, Kroszner, and Mishkin.

Appendix A

Montana Banking Markets in which Glacier and Citizens Compete Directly

Billings

Wheatland, Golden Valley, Musselshell, Sweet Grass, Stillwater, Yellowstone, Treasure, Carbon, and Big Horn Counties.

Kalispell

Lincoln and Flathead Counties; and Big Fork-Swan River Division and the northern portion of Flathead Division in Lake County that includes the communities of Polson, Finley Point, Big Arm, Elmo, and Dayton.

Lewistown

Fergus and Petroleum Counties.

Missoula

Missoula County; Superior and Alberton Divisions in Mineral County; Helmville and the western half of the Avon-Elliston Division in Powell County; the southern half of Flathead Division in Sanders County; the southern portion of Flathead Division in Lake County that includes the communities of Pablo, Ronan, Kicking Horse, Charlo, Post Creek, Moiese, St. Ignatius, Ravalli, and Arlee; Drummond Division in Granite County; and Ravalli County, excluding the eastern portion of Sula-Edwards Division.

Appendix B

Market Data for Montana Banking Markets

Billings

Glacier operates the sixth largest depository institution in the Billings banking market, controlling deposits of \$193.3 million, which represent 8.3 percent of market deposits. Citizens operates the seventh largest depository institution in the market, controlling deposits of approximately \$146 million, which represent 6.2 percent of market deposits. After consummation of the proposal, Glacier would become the second largest depository organization in the market, controlling deposits of approximately \$339.3 million, which represent approximately 14.5 percent of market deposits. The HHI would increase 103 points to 1454. Sixteen insured depository institutions would remain in the banking market.

Kalispell

Glacier operates the largest depository institution in the Kalispell banking market, controlling deposits of \$370.1 million, which represent 26.7 percent of market deposits. Citizens operates the ninth largest depository institution in the market, controlling deposits of approximately \$41.4 million, which represent 3 percent of market deposits. After consummation of the proposal, Glacier would remain the largest depository organization in the market, controlling deposits of approximately \$411.5 million, which represent approximately 29.7 percent of market deposits. The HHI would increase 160 points to 1684. Fifteen insured depository institutions would remain in the banking market.

Missoula

Glacier operates the second largest depository institution in the Missoula banking market, controlling deposits of \$345.1 million, which represent 17.8 percent of market deposits. Citizens operates the tenth largest depository institution in the market, controlling deposits of approximately \$62.6 million, which represent 3.2 percent of market deposits. After consummation of the proposal, Glacier would remain the second largest depository organization in the market, controlling deposits of approximately \$407.6 million, which represent approximately 21.0 percent of market deposits. The HHI would increase 115 points to 1276. Eighteen insured depository institutions would remain in the banking market.